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Financial Literacy and Financial Performance of Small and Medium Enterprises (SMES) among Selected Firms in Lagos State

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ABSTRACT

There is a perception that SMEs in Nigeria tends to lack skills and knowledge needed to run their businesses profitably. This also tend to have direct impact on the financial performance of SMEs as the small business owners may not be proficient in financial education. This paper examined the role of financial literacy in enhancing the financial performance of SMEs among selected firms in Lagos State. In order to achieve the objective of this paper, some research questions were raised and hypotheses formulated. Various literatures relating to financial literacy and financial performance were reviewed in ordered to establish a relationship between the two constructs under investigations. The study made used of primary data sourced from questionnaires administered to respondents. The research design adopted was survey research design and correlational research design. Three hundred and eighty four SMEs firms were selected from the twenty local government councils in Lagos State. The ordinary least square regression technique was used to analyze the role of financial literacy in enhancing the financial performance of SMEs. The result of the analysis revealed that a relationship exist between financial literacy and financial performance. The study further revealed that SMEs in Lagos State are lacking in financial education; poor in financial knowledge; weak in cash flow management; lack financial discipline; amongst others. It is therefore concluded that lack of financial literacy have undermined the financial performance of SMEs in Lagos State in particular and Nigeria in general. The study recommends that SMEs should engage the services of accountants and also send their owners and managers to attend accounting courses, trainings and seminars to provide the necessary basic knowledge of financial education to enable SMEs grow financially.

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KEYWORDS: *Financial literacy, financial performance, SMEs, financial education, financial planning*

INTRODUCTION:

Financial literacy is becoming increasingly recognized in SMEs literatures as an important issue that may affect the financial performance of small and medium scale businesses. There are increasing need for individuals who operate small businesses to manage their businesses to achieve financial gains. Greater financial education for SMEs remains a challenge as SMEs face a chicken and egg problem, where they find it hard to grow without greater financial knowledge and good financial planning. The solution to this problem is perceived to be financial literacy. Education programs and training for SME entrepreneurs may be a way to solve the problems of poor financial education as well as other structural problems that plague the SME sector.

SMEDAN (2013) defined SMEs in terms of Micro, Small and Medium Enterprises (MSMEs) as follows- Micro Enterprises are classified as assets not greater than N5mn (excluding land and buildings) with a workforce not exceeding ten employees, Small Enterprises are classified as assets greater than N5Mn not exceeding N50Mn (excluding land and building) with a workforce more than 10 persons, but not exceeding 49 employees while Medium Enterprises are classified as assets greater than N50Mn not exceeding N500mn (excluding land and building)

with a workforce between 50 and 199 employees. The 2013 Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics Collaborative Survey stated that the total number of (MSMEs) as at the time of the report stood at 37,067,416 (Micro- 36,994,578, Small- 68,168, and Medium-4,670). Lagos state has the highest number of small and medium enterprises (11,663), Small (11,044), Medium (619) while Kwara state has the least (226). Lagos state also has the highest number of micro enterprises (3,224,324), followed by Oyo state (1,864,954), then Kano state (1,794,358) while the FCT (482,365) and Nasarawa state (382,086) recorded the least. The total number of persons employed by the MSMEs stood at 59,741,211, representing 84.02% of the total labour force of 71,103,560 in Nigeria. SMEs in Lagos State generates 17.72% of the employment. The SMEs also contribute 48.47% to the nation's Gross Domestic Product (GDP) in nominal terms.

Most SMEs owners use their retirement savings and pensions to commence the business, resulting mainly from the trend of switching to defined-contribution from defined-benefit pension plans, as well as developments in financial technology (fintech) which require greater sophistication on the part of users (OECD/INFE 2016). In the global context, surveys consistently show that the level of financial literacy is relatively low even in advanced economies (OECD/INFE 2016). This has resulted to the calls at international summits to develop strategies for financial education to improve financial literacy. At their summit in Los Cabos in 2012, G20 leaders endorsed the High-Level Principles on National Strategies for Financial Education developed by the Organization for Economic Cooperation and Development International Network on Financial Education (OECD/INFE) as cited by (Morgan and Trinh 2019). The group of twenty acknowledged the importance of coordinated policy approaches to financial education and suggested that survey data on financial literacy can provide information on the levels of financial literacy of various groups within a country, and thereby indicate which groups have the greatest needs for financial education. Economic Policy Research Centre (EPRC) in Uganda and Femi Egbesola, national president, Association of Small Business Owners of Nigeria (ASBON), reveals that over 80% of SMEs in Africa nations have trapped due to financial crunch (Anudu & Okojie, 2020).

Morgan and Trinh (2019) states that financial literacy is divided into three related aspects: financial knowledge, financial behavior, and attitudes toward longer-term financial planning. This is consistent with OECD/INFE (2016, p. 47), which defines financial literacy as "... [a] combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being." In other words, the OECD/INFE concept of financial literacy is multidimensional, reflecting not only knowledge, but also skills, attitudes, and actual behavior. Financial knowledge is information and concepts which help individuals to compare financial products and services and make appropriate, well-informed financial decisions. A basic knowledge of financial concepts, and the ability to apply numerical skills to financial issues enable consumers to manage their financial affairs and respond appropriately to news and events that may have implications for their financial situation. Financial knowledge can be measured either objectively (through survey questions) or subjectively; i.e., by asking respondents to rate their own knowledge compared with that of their peers. Financial behavior (or financial "savvy") refers to financial decisions and actions. Some types of behavior, such as delaying bill payments, not planning for future expenditures, or choosing financial products without researching the market, may adversely effect on an individual's financial situation and well-being. Financial behavior may thus differ from financial knowledge, and it is important to how financial knowledge can affect financial behavior. Financial attitudes regarding longer-term financial planning include aspects such as individuals' time preference and willingness to make planned savings.

Financial performance is a phenomenal associated with increase in turnover and income generated by the business. Through a well- managed financial performance system, the SMEs could operate more efficiently for stability. The functional areas of the business can be mobilized and allocated for productive use, provide structures for financial management the basis for managing liquidity in the firm.

The fundamental objectives of this paper is to establish a relationship between financial literacy and financial performance of SMEs in Lagos State. The specific objectives are to-

1. Analyse the relationship between financial education and the financial performance of SMEs in Lagos State.
2. Analyse the relationship between financial knowledge and the financial performance of SMEs in Lagos State.
3. Examine whether Financial behavior have significant impact on SMEs financial performance in Lagos State.

4. Investigate the impact of financial planning on SMEs ability to generate income in Lagos State.

Research Questions

Based on the specific objectives of this paper, the Research questions would be-

1. Is there any significant relationship between financial education and the financial performance of SMEs in Lagos State.
2. Is there any significant the relationship between financial knowledge and the financial performance of SMEs in Lagos State.
3. Can financial behavior have significant impact on SMEs financial performance in Lagos State.
4. Can financial planning impact on SMEs ability to generate income in Lagos State.

Research Hypotheses

Therefore, the underlying Hypotheses for the study will be stated in null forms as outline below:

$H_{01:}$ There is no significant relationship between financial education and the financial performance of SMEs in Lagos State.

$H_{02:}$ There is no significant relationship between financial knowledge and the financial performance of SMEs in Lagos State

$H_{03:}$ Financial behavior have significant impact on SMEs financial performance in Lagos State.

$H_{04:}$ Financial planning can impact significantly on SMEs ability to generate income by Lagos State.

LITERATURE REVIEW

Conceptual Framework

Concept of financial literacy

According to Wikipedia financial literacy is the possession of the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Financial Literacy can broadly be defined as the capacity to have familiarity with and understanding of financial matters, financial market products, especially rewards and risks in order to make informed choices. It refers to the ability to make informed judgments and to take effective decisions regarding the use and management of money (Levine 2000). Attamah (2019) stated that financial literacy is ability of a person to effectively and responsibly manage financial affairs.

The Organization for Economic Co-operation and Development (OECD) started an inter-governmental project in 2003 with the objective of providing ways to improve financial education and literacy standards through the development of common financial literacy principles. In March 2008, the OECD launched the International Gateway for Financial Education, which aims to serve as a clearinghouse for financial education programs, information and research worldwide Financial literacy involve financial education. Financial education primarily relates to personal finance, which enables individuals to take effective action to improve overall well-being and avoid distress in financial matters (Hastings, Justine, Madrian, William and Skimmyhorn 2013). Hence improvement of financial knowledge of households is necessary for them to participate continuously in financial markets. Financial literacy plays a vital role in the efficient allocation of household savings and the ability of individuals to meet their financial goals.

Financial literacy thus goes beyond the provision of financial information and advice. It is again a major issue for finance markets as it both drives and distorts investment behavior. It empowers the common person and thus reduces the burden of protecting the common person from the elements of market failure from a regulatory perspective. It is regarded as an important requirement for functioning effectively in modern society. Trends in retirement income policies, work patterns and demography suggest its importance can only increase in the years ahead. Raising financial literacy supports social inclusion and enhances the wellbeing of the community (Hasting *etal* 2013).

Factors that contributes aggrandizing the meaning of financial literacy.

Complexity of the needs of individuals	Complexity of financial products
➢ more and more instability in the working life of individuals, ➢ lowering the social protection, ➢ increasing personal responsibility, ➢ increasing the living standard, ➢ increasing debts, ➢ longer life expectancy, more self-employments.	➢ deregulation of financial markets, ➢ a wider range of financial services and a stronger dynamic of development for new services, ➢ new distributional channels, ➢ a growing number of information available.

Dimensions of financial literacy

Financial Knowledge

Financial knowledge is defined as the understanding of key financial terms and concepts needed to function daily (Huston, 2017) as cited by (Umogbaimonica, Agwa & Asenge 2018). It is defined by (Potrich, Kelmara and

Wesley, 2016) as a particular kind of capital acquired in life through the ability to manage income, expenditure and savings in a safe way. Financial knowledge is wisdom acquired through learning the ability to manage income, expenditure and savings in a safe way (Lusardi and Mitchell, 2008). Financial knowledge is associated with a number of "best practice" financial behaviors, including possessing an adequate emergency fund, monitoring credit reports, avoiding checking account overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection (Robb, 2014). The Organization of Economic Co-operation and Development (OECD), added that financial knowledge is an important determinant of whether the individual is financially literate, involving questions related to concepts such as simple and compound interest, risk and return and inflation (OECD INFE, 2011).

Financial Behaviour

Financial behavior as defined by Zeynep (2015)is the capability to capture of understanding overall impacts of financial decisions on one's circumstances and to make the right decisions related to the cash management, precautions and opportunities for budget planning. Research has shown that financial literacy consistently predicts measures of financial behavior of individual (Huston 2017).. Sucuahi (2013) highlighted that a good financial behavior involves the ability to make financial decisions that increase wealth and prevent uncertainties of businesses and individuals. These activities generate more financial assets, prevent over- indebtedness, finance retirement, and insure against major life contingencies (Umogbaimonica *et al* 2018)..

Financial Attitude

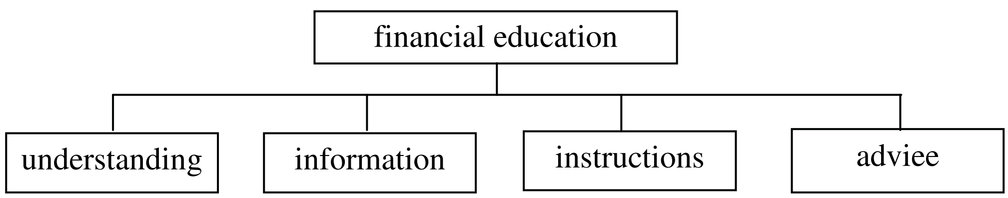
Financial attitude can be defined as the application of financial principles to create and maintain value through decision making and proper resource management (Latif, Razak, and Lumpur, 2011). Financial attitude is one of the factors that have significant impact on financial management practice (Umogbaimonica *et al* 2018).. It is defined by Eagly and Chaiken(1993) as psychological tendency that is expressed by valuating a particular entity with some degree of favor or disfavor". That is, it a psychological predisposition when it comes to agreeing or disagreeing with certain financial management practices. Latif *et al.*(2011) defined financial attitude as the creation of value in decision making and resource management through application of financial principles. Financial attitude is improved through procurement of adequate information (Abiodun, 2016).

Financial education

For keeping and increasing the wealth of each individual it is important that he has the skills to manage with his financial means. To consider himself for financially capable he has to know how to manage personal or so to say family finances, he has to have the ability to plan in advance, to receive informational decisions linked to financial products/service. He has to monitor within the scope of his needs all news on the financial market. There he meets the problems of deciding like self-control, delaying, temporal discordance of wishes, aims, intensions and real needs, problems with creating its own financial strategy and the problem of choosing the suitable financial product/service.

Financial education is by the definition of the OECD (2005) a process where the user of financial services/investors improve their understanding for financial products, notions and risks and on the bases of information, instructions and objective advice develop the skills and confidence in strengthening information about financial risks and occasions, make decisions on the bases of good information, are acquainted with the fact where to find help and take other effective measures for improving their wealth.

Delimitation of financial education



Source: OECD, 2005.

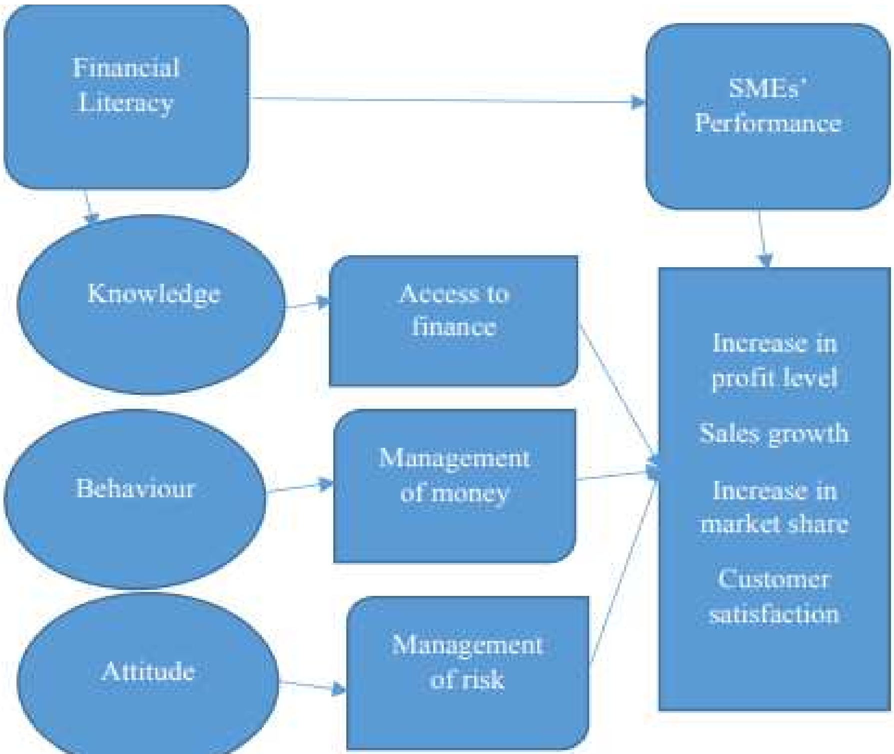
The information cover facts, data and specific knowledge by means of them individuals acquaint with financial opportunities, alternatives and consequences of the choice. The instructions guarantee training and leading where individuals gain skills and abilities of understanding financial conditions and concepts. Some advices help individuals at understanding general financial matters and products and enable the best exploitation of the acquired information and instructions.

Financial Planning

Financial planning is a continuous process of directing and allocating financial resources to meet strategic goals and objectives. It is largely concerned with anticipating significant new developments and changes that will have a major impact on the performance of the business. Financial planning begins with forecast of fnancial statement to determine the future's financing and investment needs.

Financial Performance

Performance refers to the ability to attain set objectives (Attamah 2019). Financial performance is therefore defined as an ability to achieve financial planned goals as measured against its intended outputs. Performance comprises outcomes related to financial performance, market performance and shareholder return (Nkundabanyanga & Kasozi (2014). Business performance is also the ability of a business enterprise to come across or surpass its pre-set objectives or goals as agreed upon by its investors over a definite period which enables the business enterprise to realise unique or superfluous set goals relevant to a business progress in the market (Allgood & Walstad 2016). Das & Teng (2000) stated that business performance is a consistent dimension of consequences and results, which produces reliable data on the success and effectiveness of a planned effort. Performance in the context of SMEs businesses is the ability to achieve results based on plans and set objectives.



Source: Adapted from Odebiyi, Fasesin,& Ayo-Oyebiyi 2020

Odebiyi, Fasesin & Ayo-Oyebiyi (2020) stated that there is connection between financial literacy, measured by knowledge, behavior, and attitude as independent variables while SMEs performance as a dependent variable, which could be measured by profit level, sales growth, market share, and customer satisfaction.

Theoretical Framework

SMEs- The engine of growth theory

Many studies have investigated the impact of SMEs on the growth of an economy including Lazányi (2014); Afolabi (2013); (Robu, 2013);(Martins, 2012); (Kadiri 2012); Murta1a, Awo1aja, Bako and Yusuf (2012); Aremu and Adeyemi (2011); Akingunola (2011); Meghana (2011); Oluba (2009) and others. These studies are some of the proponents of SMEs growth theory. The theory argued that SMEs are the engine of growth in an economy. They are the dominant form of business organization, representing roughly 95 – 99% of all companies. SMEs are considered to be the backbone of many economies and contribute greatly to a country's wealth. These enterprises represent an essential source of economic growth and development in advanced countries, just as they do in emergent economies. From an empirical and quantitative perspective, the Organization for Economic Cooperation and Development (OECD) claims that SMEs account for over 99% of all enterprises in the European Union and, globally, this sector represents between 60 and 70% of employment (OECD, 2009). Using this parameter, SMEs worldwide are considered as the engine of growth as they help meet

economic, social and environmental challenges through the creation of wealth. SMEs are a very important part of the economy as it contributes significantly to GDP, employment generation and capacity building.

Dual –Process Theory

The dual-process theory was propounded by Lusardi and Mitchell (2011). This theory posits that financial decisions can be driven by both intuitive and cognitive processes which mean that financial literacy may not always yield optimal financial decisions. The Dual Process Financial literacy theory argues that the behavior of people with a high level of financial literacy might depend on the prevalence of the two thinking styles: intuition (system 1) and cognition (system 2) (Lusardi and Mitchell, 2011; Glaser and Walther, 2013). Intuition is the ability to acquire knowledge without inference or the use of reason. Intuition provides views, understandings, judgments, or beliefs that cannot be empirically verified or rationally justified. Taylor (1981) as cited by Chan and Park (2013) asserts that individuals who rely on intuition prefer to use mental short cuts as they make decisions which tend to be largely influenced by their emotions. Glaser and Walther (2013) point out that the positive effect of financial literacy on reasonable investment decisions is diminished by a high prevalence of intuition. Therefore, increased use of intuition results to sub optimal investment decisions.

Cognition on the other hand is the process by which the sensory input is transformed, reduced, elaborated, stored, recovered and used. Cognition is the mental processing that includes the comprehending, calculating, reasoning, problem solving and decision making (Chan and Park 2013). High cognition individuals enjoy thinking, are analytical and are better at retaining information and more likely to search out new information.

Relevance of the two theories to the work

SMEs- The engine of growth theory is considered relevant to this study because it shows that SMEs who constitute the larger percentage of employment are high on cognition. They are more likely to be influenced by a relevant financial knowledge and information. This means that their decision making on skills acquisition can be boosted by knowledge of financial literacy training using simple easy to understand methodologies.

Also, financial literacy can reduce the use of intuition by provision of relevant information to support decision-making through financial education since individuals tend to rely on intuition where relevant information is lacking. The overall results may boast the performance of the individual SMEs operator in financial decision making.

Empirical review

One of the earliest empirical work on financial literacy was that of the Jump Start Coalition for Personal Financial Literacy program for high school and college students in the US in 1997 described in Mandell (2009) as cited by Morgan and Trinh (2019). Lusardi and Mitchell (2006) study on Health and Retirement Study (HRS) provided questions on financial literacy. The study served as a model for subsequent studies. The three core questions in the original survey were aimed at identifying respondents' understanding of some key financial concepts: compound interest, real rates of return, and risk diversification. Later surveys, including the OECD/INFE survey, extended the financial knowledge questions but also added questions about financial attitudes, financial behavior, and financial experience.

Odebiyi, Fasesin, Oladipo & Ayo-Oyebiyi 2020 study examines the influence of financial literacy on the performance of SMEs with particular reference to SMEs registered with Lagos Business directory. The total population of the study comprises all 376 SMEs that registered and listed in Lagos Business Directory. Closed-ended questionnaires were employed to collect data from 190 SME entrepreneurs. The result reveals that the majority of the SME operators had a numeracy level of financial literacy of using a calculator for addition and subtraction only. This implies that most of the small business entrepreneurs did not have a spectrum of financial skills. It was also discovered that financial literacy dimensions independently and jointly influence SMEs' performance. Therefore, the study recommends that SME entrepreneurs should leverage on the spectrum of financial skills, and also there should be a collaboration between SME entrepreneurs and accounting professional bodies in Nigeria, to organize seminars and workshops on financial literacy. Thus, this will go a long way to equip SME entrepreneurs with an array of financial skills such as book-keeping, cash management, inventory management, daily cash reconciliation and budgeting.

Attamah *etal* contributes to the literature on financial literacy and the performance of SMEs in three ways; first it draws on dual theory to explain the importance of financial literacy; it also expands the knowledge of financial literacy because it reviewed the relationship between financial literacy and SMEs performance. In overall, the study was able to provide a guide to policy makers to design programmes that will enhance financial literacy,

particularly the ones that are directly tailored to the needs of SMEs. The paper was qualitative in nature and used analytical approach of secondary sources to draw insights from scholarly articles

Lusardi and Mitchell (2014) as cited by Risk (2019) provide an extensive review of the literature on factors related to financial literacy. Financial literacy scores tend to follow a hump-shaped pattern with respect to age, first rising and then declining in old age. However, elderly persons' confidence in their financial literacy shows no similar decline, suggesting a perceptual gap. Women generally score lower than men in financial literacy, although this seems to vary a lot by country and culture. On the other hand, women tend to be more willing to admit not knowing an answer than men are. Higher levels of education and parents' education are positively correlated with financial literacy. These findings were generally confirmed in the analysis of the results of the OECD/INFE survey in the above-mentioned sample of 30 countries in OECD/INFE (2016).There is need for financial literacy in both the developed and the developing countries alike. The increasing number and complexity of financial products, the continuing shift in responsibility for providing social security from governments and financial institutions to individuals, and the growing importance of individual retirement planning make it imperative that financial literacy be provided to all in the developed countries. In the developing countries financial literacy can be seen as the first step toward alleviation of poverty and development.

Financial literacy can make a difference not only in the quality of life that individuals can afford, but also the integrity and quality of markets. It can provide individuals with basic tools for budgeting, help them to acquire the discipline to save and thus, ensure that they can enjoy a dignified life after retirement. Financially educated consumers, in turn, can benefit the economy by encouraging genuine competition, forcing the service providers to innovate and improve their levels of efficiency.

A key question for policy is whether financial education programs can improve financial literacy. A large number of studies have been conducted, but the results are inconclusive. The results depend on many specific aspects of the programs, including course content, knowledge of the teachers, etc. Fernandes(2014) perform a meta-analysis of 188 studies and find that financial education has a significant but very small effect of only 0.1% on related economic behaviors. Lusardi and Mitchell (2014) cite Walstad(2010) as an example of a careful study that found significant impacts from a financial literacy study program. In their survey, Hastings (2013) argue that the evidence on the effectiveness of financial education programs on financial literacy is " at best contradictory." Many papers attempt to link measures of financial literacy with other economic and financial behaviors, going back to Bernheim (1995, 1998) in the US.

Hilgert(2003) found a strong correlation between financial literacy and daily financial management skills, while other studies found that the more numerate and financially literate are more likely to participate in financial markets, invest in stocks, and make precautionary savings (Christelis 2010; van Rooij et al. 2011; de BassaScheresberg 2013). The more financially savvy are also more likely to undertake retirement planning, and those who make financial plans also tend to accumulate more wealth (Lusardi and Mitchell 2011). Mahdzan and Tabiani (2013) find similar evidence in Malaysia. In terms of household borrowing, Moore (2003) found that those with lower financial literacy are more likely to have more expensive mortgages. Campbell (2006) showed that those with lower income and less education were less likely to refinance their mortgages during periods of falling interest rates. Stango and Zinman (2009) found that those who could not correctly calculate interest rates generally borrowed more and accumulated less wealth.

Theoretical framework

Instrumental variables growth theory

The proponent of this theory include amongst others Levine (1998, 1999, 2000) that financial development predicts economic growth, these results do not settle the issue of causality. It may simply be the case that financial markets develop in anticipation of future economic activity. Thus, finance may be a leading indicator rather than a fundamental cause. To assess whether the finance-growth relationship is driven by simultaneity bias, one needs instrumental variables that explain cross-country differences in financial development but are uncorrelated with economic growth beyond their link with financial development and other growth determinants. Levine (1998, 1999) and Levine and Beck (2000) use the La Porta (1998, henceforth LLSV) measures of legal origin as instrumental variables. In particular, LLSV (1998) show that legal origin – whether a country's Commercial/Company law derives from British, French, German, or Scandinavian law – importantly shapes national approaches to laws concerning creditors and the efficiency with which those laws are enforced. Since finance is based on contracts, legal origins that produce laws that protect the rights of external investors and

enforce those rights effectively will do a correspondingly better job at promoting financial development.16 Indeed, LLSV (1998), Levine (1998, 1999, 2003). In terms of identifying why legal tradition influences the operation of the financial system, see Beck, Demirgüç-Kunt and Levine (2003b, 2005a).

Levine and Beck (2000) as cited by Morgan and Trinh (2019) trace the effect of legal origin to laws and enforcement and then to financial development. Since most countries obtained their legal systems through occupation and colonization, the legal origin variables may be plausibly treated as exogenous. Following Levine, Loayza and Beck (2000, henceforth LLB) analysis of 71 countries, consider the generalized method of moments (GMM) regression: G(j) = α+βF(i)+γX+ε. G(j) is real per capita GDP growth over the 1960–95 period. The legal origin indicators, Z, are used as instrumental variables for the measures of financial development, F(i). X is treated as an included exogenous variable. LLB use linear moment conditions, which amounts to the requirement that the instrumental variables (Z) be uncorrelated with the error term (ε). They find that the exogenous component of financial development is closely tied to long-run rates of per capita GDP growth. Furthermore, the data do not reject the test of the over-identifying restrictions. The inability to reject the orthogonality conditions plus the finding that the legal origin instruments (Z) are highly correlated with financial intermediary development indicators (i.e., the null hypothesis that the legal origin variables does not explain the financial intermediary indicators.

Research Methods

The study covered SMEs in Lagos State with number of employees ranging between 11- 300. The population of the study comprises of SMEs firms in Lagos State numbering (11,663), Small (11,044), and Medium (619). The research design adopted was a combination of survey research design and correlational research design. The study used a sample of three hundred and eighty four respondents which consist of the ownersand managers of the SMEs firms. The sampling was done using simple random sampling techniques, the sample sizes were determined using Cochran (1977). The data was generated using well-structured likert scale questionnaires of strongly agree, agree, strongly disagree, disagree and undecided. The study employed ordinary least re regression method. The model of study is operationalized thus-

SMEfg=f(fl.) or $y = f(x)$ …(1)

$y = \beta 0 + \beta 1 x i_1 + \beta 2 x i_2 + \beta 3 x 3\, i_3 + \beta 4 x i_4 + \epsilon$…(2)

Where
SMEfg= SMEs financial performance
$x1$==financial education
$x2$= financial attitude and behaviour
$x3$= financial knowledge
$x4$= financial planning
ϵ =error term

Analysis, Results and Interpretation

Hypothesis testing

Table 1 Correlation analysis table on the relationship between financial education and the financial performance of SMEs in Lagos State

FINANCIAL EDUCATION		SA	A	UN	D	SD
You acquire financial education to enable you understand financial concepts.	Frequency	148	98	15	55	70
	Percentage	38%	26%	4%	14%	18%
You acquire financial education to enable you the ability to apply numerical skills to financial issues and enable consumers to manage their financial affairs and respond appropriately to news and events that may have implications for their financial situation.	Frequency	183	109	21	30	43
	Percentage	47%	29%	5%	8%	11%
You acquire financial training to enable you understand consumers and to manage your financial affairs.	Frequency	200	108	15	24	39
	Percentage	52%	28%	4%	6%	10%

Source: Field Survey, 2023

		Financial Education	Financial performance
Financial Education	Pearson Correlation	1	.701
	Sig. (2-Tailed)		.000
	N	384	384
Financial performance	Pearson Correlation	.701	1
	Sig. (2-Tailed)	.000	
	N	384	384

The table above shows that there is a high positive relationship between financial education and the financial performance of SMEs in Lagos State (r = 0.701). This result is statistically significant because the p-value of the result (0.000) is less than the 0.05 level of significance used for the study. This implies that as entrepreneurs acquire more knowledge, the finance of their enterprises also increases.

Decision

Null hypothesis is not accepted; thus it is concluded that there is a significant high positive relationship between financial education and the financial performance of SMEs in Lagos State.

Hypothesis two

Table 2 There is no significant relationship between financial knowledge and the financial performance of SMEs in Lagos State

FINANCIAL KNOWLEDGE		SA	A	UN	D	SD
You acquire university education to enable you understand financial concepts.	Frequency	142	92	19	57	76
	Percentage	36%	24%	5%	15%	20%
You acquire university education to enable you the ability to apply numerical skills to financial issues and enable consumers to manage their financial affairs and respond appropriately to news and events that may have implications for their financial situation.	Frequency	173	99	23	38	53
	Percentage	45%	26%	6%	10%	14%
You acquire university education to enable you understand consumers and to manage your financial affairs.	Frequency	192	99	19	19	38
	Percentage	50%	26%	10%	5%	10%

Source: Field Survey, 2023

With regards to financial knowledge, 61% of the respondents agreed that they acquired university education to enable them understand financial concepts; 71% agreed that they acquired university education to enable them the ability to apply numerical skills to financial issues and also enable consumers to manage their financial affairs and respond appropriately to news and events that may have implications for their financial situation; and 76% agreed that they acquired university education to enable them understand consumers and to manage their financial affairs.

Hypothesis testing

Correlation analysis table on the relationship between financial knowledge and the financial performance of SMEs in Lagos State

		Financial Knowledge	Financial performance
Financial Knowledge	Pearson Correlation	1	.881
	Sig. (2-Tailed)		.000
	N	384	384
Financial performance	Pearson Correlation	.881	1
	Sig. (2-Tailed)	.000	
	N	384	384

The table above shows that there is a high positive relationship between financial knowledge and the financial performance of SMEs in Lagos State (r = 0.881). This result is statistically significant because the p-value of the result (0.000) is less than the 0.05 level of significance used for the study. This implies that as entrepreneurs acquire more knowledge, the finance of their enterprises also increases.

Decision

Null hypothesis is not accepted; thus it is concluded that there is a significant high positive relationship between financial knowledge and the financial performance of SMEs in Lagos State.

Hypothesis three

Table 3 Financial behavior and attitude have significant impact on SMEs financial performance in Lagos State

FINANCIAL ATTITUDE AND BEHAVIOUR		SA	A	UN	D	SD
Your firm financial behavior have affected its income.	Frequency	157	134	7	49	38
	Percentage	41%	35%	2%	13%	10%
Your firm actions have affected its income.	Frequency	142	115	11	88	30
	Percentage	37%	30%	3%	23%	8%
Your firm financial attitude have affected your sales and production capacity in the past.	Frequency	173	119	19	19	57
	Percentage	45%	31%	5%	5%	15%

Source: Field Survey, 2023

With regards to financial behavior and attitude,76% of the respondents agreed that their financial behavior have affected its income; 67% agreed that their firms' actions have affected its income; and 76% agreed that their firms' financial attitude have affected their sales and production capacity in the past.

Hypothesis testing

Table 5 Regression Analysis table on financial behavior impact on SMEs financial performance in Lagos State

r^2	0.793	n	199	
r	0.891	k	1	
Std. Error	0.151	Dep. Var.	**Financial performance**	

ANOVA table

Source	*SS*	*df*	*MS*	*F*	*p-value*
Regression	316.8905	1	316.8905	2468.17	.000
Residual	25.293	197	0.128391		
Total	342.1835	198		-	

Regression output

variables	*coefficients*	*std. error*	*t (df=197)*	*p-value*
Intercept	1.9449	0.0083	122.987	0.000
Financial behavior	0.3299	0.0105	51.487	0.000

There is a positive relationship between financial behavior and SMEs financial performance in Lagos State. The value of the coefficient of determination shows that 79.3% of the variance recorded in

SMEs financial performance in Lagos State is accounted for by the financial behavior of SMEs operators in Lagos State ($R^2 = 0.793$, $p<0.05$). This value is statistically significant because the p-value of the result (0.000) is less than the 0.05 level of significance used for the study.

The ANOVA table shows that with 1 and 197 degree of freedom, the critical value of F (3.88) is less than the calculated F value of 2468.17. This signifies that the regression model provides a good fit to the data in the sample.

The simple regression model for this hypothesis is

Financial performance = $\alpha_1 + \beta_1$ Financial behavior

SMEs financial performance = 194 + 0.329 Financial behavior

An evaluation of the unstandardized coefficient of Financial behavior and its associated p-value ($\beta_{FB}= 0.329$, $P < 0.05$) shows that a unit increase in the financial behavior of SMEs operators in Lagos state will result in a 32.9% increase in financial performance.

Decision

Null hypothesis is not accepted; thus it is concluded that financial behavior has significant impact on SMEs financial performance in Lagos State

Hypothesis four

Table 6 Financial planning cannot impact significantly on SMEs ability to generate income in Lagos State.

FINANCIAL PLANNING		SA	A	UN	D	SD
Your educational qualification has helped your firm in financial planning.	Frequency	142	92	19	57	76
	Percentage	37%	24%	5%	15%	20%
Your educational qualification has helped your firm to achieve planned savings.	Frequency	134	99	19	38	92
	Percentage	35%	26%	5%	10%	24%
Your educational qualification has helped your firm achieve longer-term financial goals.	Frequency	192	99	38	76	34
	Percentage	50%	26%	10%	20%	9%

Source: Field Survey, 2023

61% of the respondents agreed that their educational qualifications have helped their firms in financial planning; 61% of the respondents agreed that their educational qualifications have helped their firms to achieve planned savings; and 56% of the respondents agreed that their educational qualifications have helped their firms achieve longer-term financial goals.

Hypothesis Testing

Table 7 Regression Analysis of Financial planning and SMEs ability to generate income in Lagos State

	r^2	0.811	n	199	
	r	0.901	k	1	
	Std. Error	0.190	Dep. Var.	**SMEs ability to generate income**	
ANOVA table					
Source	*SS*	*df*	*MS*	*F*	*p-value*
Regression	411.2530	1	411.2530	11380.53	.000
Residual	7.1189	197	0.0361		
Total	418.3719	198			
Regression output					
variables	*coefficients*	*std. error*	*t (df=197)*	*p-value*	
Intercept	5.9833	0.0262	228.659	0.000	
Financial planning	1.0093	0.0095	-106.680	0.000	

There is a positive relationship between financial planning and SMEs' ability to generate income in Lagos State. The value of the coefficient of determination shows that 81.1% of the variance recorded in SMEs ability to generate income in Lagos State is accounted for by financial planning ($R^2 = 0.811$, $p<0.05$). This value is statistically significant because the p-value of the result (0.000) is less than the 0.05 level of significance used for the study.

The ANOVA table shows that with 1 and 197 degree of freedom, the critical value of F (3.88) is less than the calculated F value of 11380.53. This signifies that the regression model provides a good fit to the data in the sample.

The simple regression model for this hypothesis is

$Y = \alpha_4 + \beta_4$ Financial planning

SMEs ability to generate income = 5.98 + 1.0093 Financial planning

An evaluation of the unstandardized coefficient of financial planning its associated p-value ($\beta_{FP}= 1.0093$, $P < 0.05$) shows that a unit increase in Financial planning will result in a 100% increase in SMEs ability to generate income.

Decision

Null hypothesis is not accepted; thus it is concluded that financial planning can impact significantly on SMEs ability to generate income in Lagos State.

Discussion of findings

Based on the specific objectives of this study, four hypotheses were tested with a view to establishing a relationship between financial literacy and financial performance of SMEs in Lagos State. The result of all the analyses above reveals as follows: the cross sectional data that were sourced through questionnaire shows that there is a high positive relationship between financial education and the financial performance of SMEs in Lagos State (r = 0.701). Meaning that there is a significant relationship between the variables under investigation. This also

implies that the variables displayed high tendency during the period of conducting the research. Furthermore, there is a positive relationship between financial behavior and attitude as well as SMEs financial performance in Lagos State. The value of the coefficient of determination shows that 79.3% of the variance recorded in SMEs financial performance in Lagos State is accounted for by the financial behavior of SMEs operators in Lagos State (R^2 = 0.793, p<0.05). This value is statistically significant because the p-value of the result (0.000) is less than the 0.05 level of significance used for the study.

The ANOVA table shows that the critical value of F (3.88) is less than the calculated F value of 2468.17. This signifies that the regression model provides a good fit to the data in the sample.. The implication of this is that the more there is financial education, financial attitude, financial behavior the higher the level of financial performance in SMEs firms.

Conclusion/Recommendations

The fundamental objective of this paper is to establish a relationship between financial literacy and financial performance of SMEs in Lagos State. The increasing number and complexity of SMEs products have make it imperative that financial literacy be addressed by SMEs. Based on empirical literature review and the result of the analyses. It is therefore concluded that lack of financial literacy have undermined the financial performance of SMEs in Lagos State in particular and Nigeria in general. This findings is in line with the works of Hilgert(2003) and Stango and Zinman (2009). The study recommends that SMEs owners should acquire relevant financial education that can influence their financial attitude and behavior, and also engage the services of accountants as well as management consultants continually send their owners and managers to attend financial courses, trainings and seminars to provide the necessary basic knowledge of financial education to enable SMEs grow financially.

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